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TAGS: [ECON](#) [ETRD](#) [EIND](#) [ENV](#) [PGOV](#) [CH](#)

SUBJECT: USITC Studies the Benefits of Doing Business in South China

11. (U) SUMMARY: Access to credit, tax benefits, historical and cultural ties, and the presence of a well-developed transportation system were among the reasons cited by executives from enterprises in Guangdong for doing business in South China during conversations with a visiting U.S. International Trade Commission (USITC) delegation. END SUMMARY.

12. (U) As part of a country-wide examination of trade policies, economic specialists from the USITC visited a variety of enterprises in Guangdong Province to determine what effect Chinese government policies had on business development and trade. During the early September visit, the USITC delegation interviewed managers and owners of collectively-owned enterprises (COEs), wholly-owned foreign enterprises (WOFEs), and a state-owned enterprise (SOE).

From Collectivism to IPO

13. (U) Foshan-based Midea Company began as a collectively-owned enterprise in 1968. With an initial investment of RMB 5,000, He Xiangjian (who is now the president of Midea Group) and 23 fellow villagers grew a small operation producing plastic bottle caps into a home-appliance giant boasting RMB 31.3 billion (about US\$4.1 billion) in assets and RMB 57 billion (US\$7 billion) in sales revenues in 2006. Though much of the company remains privately owned, Midea publicly listed its air-conditioner, compressor, refrigerator, and washing-machine units in 1993. Midea maintains controlling shares in all of these affiliates.

14. (SBU) Midea maintains its operations in Foshan because of logistics and history, according to International Strategic and Market Development Department Manager Ms. Xin. Not only was the company founded there, but proximity to port facilities and a well-developed supply chain are also major factors. In addition, Xin noted that, with its record of success, the firm had no difficulty getting loans from local banks.

WOFE -- Agility and Contingency Planning is Necessary

15. (SBU) Hong Kong-based Kam Ying Wong Garment Factory has been family-owned for more than 20 years. President Tommy Wong told the delegation that the wholly-owned foreign enterprise had to think creatively to stay competitive. To cope with U.S. textile import quotas, the company first expanded to Macao, then to Zhongshan in Guangdong, and finally to Canada, shifting production to different factories based on the quota allowed for each location.

16. (SBU) When asked why his company favored investment in south China instead of other Asian countries, Wong noted China's stable

political situation, a language and culture similar to Hong Kong's and convenient ports for easy transportation. However, Wong lamented that frequent power shortages -- especially during the summer -- sometimes made production unpredictable and difficult.

SOE Government Connections Lead to Consulting Contracts

¶17. (SBU) A state-owned enterprise founded in 1983, Huizhou-based Desay Company is one of China's top 500 enterprises and is ranked 19th in China's top 100 electronic enterprises. According to Zhang Rentian, General Manager of Desay's International Marketing Department, certain privileges generally available only to SOEs, such as free land and government-guaranteed loans from local banks, were factors in the company's development in the 1980s. However, the firm does not appear to receive such benefits today. Nevertheless, Zhang told the delegation that, because of Desay's expertise in dealing with Chinese government agencies, companies such as Sony employ Desay as a consultant to facilitate their own government interactions.

¶18. (U) Zhang believes that tax incentives have been an important factor in luring foreign investment to Huizhou. According to Zhang, China's corporate income tax is normally 30 percent, but regions keen to attract foreign investment may have rates as low as 24 percent. He also pointed out that Huizhou has two industrial parks created by the central government -- the Zhongkai Industrial Park and the Daya Bay Industrial Park -- where the tax rate dips to 15 percent.

Conveniently Collective

¶19. (SBU) Baolihua Garment Company General Manager Ye Mengrong told the delegation that, although his Shenzhen-based company began more

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than 20 years ago as a township-level collectively-owned enterprise, from the beginning it was actually a privately-owned company under full control of his family. Ye's suggested that "collectively-owned" was a widely-used euphemism for private ownership during the early days of enterprise reform. Ye noted that, in his experience, companies with close government contacts had an edge over those that do not. However, Ye denied that Baolihua currently maintained any special relationship with the government. COMMENT: Baolihua's investment in important national infrastructure projects -- such as power stations and highways -- cast some doubt on Ye's denial of a special relationship. END COMMENT.

¶10. (U) The USITC delegation reviewed this cable before transmission.

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